

**CITY OF TRAER**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2011**



## Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-9
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A     10-11
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B     12-13
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C     14-15
Notes to Financial Statements	16-24
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	25-26
Notes to Required Supplementary Information – Budgetary Reporting	27
Other Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1     28
Schedule of Indebtedness	2     29-30
Bond and Note Maturities	3     31
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4     32-33
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	34-35
Schedule of Findings	36-39

---



## City of Traer

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2011)</b>		
Pete Holden	Mayor	Jan 2012
Mark Mason	Mayor Pro tem	Jan 2012
Mark Mason	Council Member	Jan 2012
Raymond Mundt	Council Member	Jan 2012
Jake Schmitt	Council Member	Jan 2012
Lou Rausch	Council Member	Jan 2014
Lee Wiges	Council Member	Jan 2014
Jon Panfil	Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Joe Morris	TMU Trustee/Chairman	Jan 2015
Richard Thompson	TMU Trustee/Vice Chairman	Jan 2012
Suzanne Earley	TMU Trustee	Jan 2013
Nick Podhajsky	TMU Trustee	Jan 2014
Sandra Whannel	TMU Trustee	Jan 2016
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite
<b>(After January 2011)</b>		
Pete Holden	Mayor	Jan 2012
Mark Mason	Mayor Pro tem	Jan 2012
Mark Mason	Council Member	Jan 2012
Raymond Mundt	Council Member	Jan 2012
Jake Schmitt	Council Member	Jan 2012
Lou Rausch	Council Member	Jan 2014
Lee Wiges	Council Member	Jan 2014
Jon Panfil	Clerk/Treasurer	Indefinite
Bruce Reinders	Attorney	Indefinite
Joe Morris	TMU Trustee/Chairman	Jan 2015
Richard Thompson	TMU Trustee	Jan 2012
Suzanne Earley	TMU Trustee	Jan 2013
Nick Podhajsky	TMU Trustee	Jan 2014
Sandra Whannel	TMU Trustee	Jan 2016
Pat Stief	General Manager	Indefinite
Jon Panfil	Office Manager	Indefinite



Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Traer's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Traer as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2012 on our consideration of the City of Traer's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Traer's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lou Ann Murphy & Company P.L.L.C.".

Lou Ann Murphy & Company, P.L.L.C.  
Certified Public Accountants  
Osage, Iowa

January 30, 2012



---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The City of Traer provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 37.7%, or approximately \$556,000 from fiscal year 2010 to fiscal year 2011. Property tax, Operating grants and contributions, and Bond proceeds increased approximately \$15,000, \$29,000, and \$653,000, respectively. Capital grants and contributions and Other general receipts decreased approximately \$119,000 and \$31,000, respectively.
- Disbursements of the City's governmental activities increased .7%, or approximately \$14,000, in fiscal year 2011 from fiscal year 2010. Public safety, public works and capital projects disbursements decreased approximately \$22,000, \$7,000 and \$119,000, respectively.
- The City's total cash basis net assets decreased 1.3%, or approximately \$31,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$276,000 and the assets of the business type activities increased approximately \$245,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

---

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric service, waterworks and sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Traer Municipal Utilities Electric, Water, Sewer and Telecom Funds and the City Sewer Fund, considered to be major funds of the City.

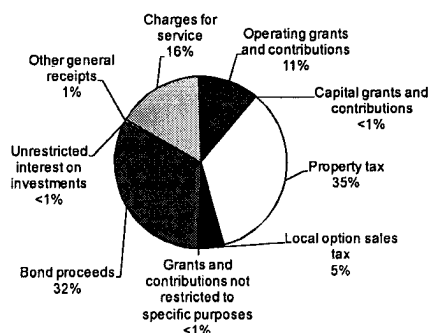
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

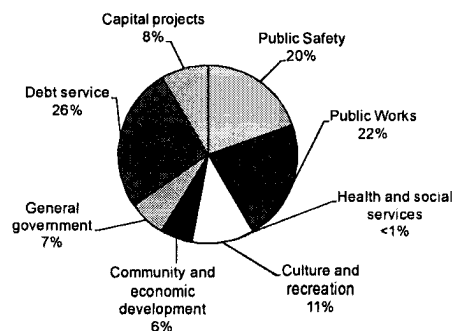
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$978 thousand to approximately \$702 thousand. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 330	321
Operating grants and contributions	233	204
Capital grants and contributions	-	119
General receipts:		
Property tax	702	687
Local option sales tax	95	93
Grants and contributions not restricted to specific purposes	6	4
Bond proceeds	653	-
Unrestricted interest on investments	1	2
Other general receipts	11	45
Total receipts	2,031	1,475
Disbursements:		
Public safety	396	418
Public works	434	441
Health and social services	9	8
Culture and recreation	228	177
Community and economic development	117	167
General government	134	131
Debt service	528	371
Capital projects	171	290
Total disbursements	2,017	2,003
Change in cash basis net assets before transfers	14	(528)
Transfers, net	(290)	174
Change in cash basis net assets	(276)	(354)
Cash basis net assets beginning of year	978	1,332
Cash basis net assets end of year	\$ 702	978

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 37.7%, or approximately \$556,000. The total cost of all programs and services increased approximately \$14,000, or .7%, with no new programs added this year.

The cost of all governmental activities this year was approximately \$2.017 million compared to approximately \$2.003 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$1.454 million because some of the cost was paid by those directly benefited from the programs (\$330,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$233,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2011 from approximately \$644,000 to approximately \$563,000, principally due to receiving grant proceeds to purchase a new fire truck in FY10. The City paid for the remaining "public benefit" portion of governmental activities with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Electric	2,463	2,325
Water	362	363
Sewer	128	125
Telecom	141	152
General receipts:		
Unrestricted interest on investments	2	3
Total receipts	3,096	2,968
Disbursements:		
Electric	2,103	1,990
Water	743	361
Sewer	154	143
Telecom	140	162
Total disbursements	3,140	2,656
Change in cash basis net assets before transfers	(44)	312
Transfers, net	290	(174)
Change in cash basis net assets	246	138
Cash basis net assets beginning of year	1,402	1,264
Cash basis net assets end of year	\$ 1,648	1,402

Total business type activities receipts for the fiscal year were approximately \$3.096 million compared to approximately \$2.968 million last year. This was due primarily to increased usage, as rates were basically stable between years. The cash balance increased approximately \$246,000 from the prior year and total disbursements for the fiscal year increased 18% to approximately \$3.140 million.

---

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Traer completed the year, its governmental funds reported a combined fund balance of \$701,634 a decrease of more than \$276,325 below last year's total of \$977,959. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$147,363 from the prior year to \$607,883. This decrease was due primarily to spending from set-aside reserves and paying down the Prairie West Debt Service from reserves, as no lots were sold.
- The Capital Projects Fund cash balance decreased \$113,987 to \$53,358 during the fiscal year. This decrease was due to street resurfacing and curb replacement projects that were completed using G.O. bond proceeds obtained in previous years.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, TMU Electric Fund cash balance increased \$255,578 to \$1,432,671, due primarily to higher than anticipated electric revenues, along with lower capital expenditures and purchased power costs during the year.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 2, 2011 to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$77,693 less than budgeted. This was primarily due to lower than anticipated interest income and Prairie West Lot sales.

Total disbursements were \$416,025 less than the amended budget. This was primarily due to reduced spending in all city budget categories and the elimination of transfers between the City and TMU from the financial statements included as disbursements in the City budget.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$3,576,000 in bonds and other long-term debt outstanding, compared to \$3,948,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2011	2010
General obligation bonds	\$ 2,060	1,855
Revenue bonds	955	1,493
State revolving loans	561	600
Total	\$ 3,576	3,948

Debt decreased as a result of scheduled payments made during the fiscal year. The city also refinanced older G.O. and Revenue debt with a new G.O. Bond during the year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,060,000 is over half of its constitutional debt limit of approximately \$3.915 million.

---

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Traer's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates and fees that will be charged for various City activities. The City Council was facing continued state funding cutbacks and only a small increase in taxable value.

Taxable value in the City of Traer increased 2.7%, from \$43.3 million to \$44.5 million. The tax rate for FY12 increased slightly from \$15.733 per thousand to \$16.48 per thousand. Tax revenues were budgeted to increase approximately \$41,000 in FY12, and total revenues were projected to increase approximately \$100,000. Expenditures were projected to decrease by about \$100,000. Overall, cash balances were expected to remain level during FY12.

The Traer Municipal Utilities Board approved a budget with overall revenues projected to be flat between FY11 and FY12. There were no rate changes and no major change in usage anticipated.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon Panfil, City Clerk, 649 Second Street, Traer, Iowa 50675.

---

## **Basic Financial Statements**

---

City of Traer  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2011

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 395,845	133,294	31,634	-
Public works	433,608	170,207	188,759	-
Health and social services	9,438	7,874	-	-
Culture and recreation	227,952	13,920	-	-
Community and economic development	116,794	-	12,380	-
General government	133,710	4,588	-	-
Debt service	528,436	-	-	-
Capital projects	171,280	-	-	-
Total governmental activities	2,017,063	329,883	232,773	-
Business type activities				
Electric	2,103,298	2,463,530	-	-
Water	743,449	362,795	-	-
Sewer	154,086	126,937	-	-
Telecom	140,008	140,817	-	-
Total business type activities	3,140,841	3,094,079	-	-
Total primary government	\$ 5,157,904	3,423,962	232,773	-
<b>Component Unit</b>				
Traer Ambulance Service	\$ 63,786	-	48,237	-
<b>General Receipts:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Bond Proceeds, net of fees, etc.				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Streets				
Debt service				
Other purposes				
Unrestricted:				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	
(230,917)	-	(230,917)	-
(74,642)	-	(74,642)	-
(1,564)	-	(1,564)	-
(214,032)	-	(214,032)	-
(104,414)	-	(104,414)	-
(129,122)	-	(129,122)	-
(528,436)	-	(528,436)	-
(171,280)	-	(171,280)	-
(1,454,407)	-	(1,454,407)	-
-	360,232	360,232	-
-	(380,654)	(380,654)	-
-	(27,149)	(27,149)	-
-	809	809	-
-	(46,762)	(46,762)	-
(1,454,407)	(46,762)	(1,501,169)	-
			(15,549)
525,070	-	525,070	-
176,676	-	176,676	-
95,024	-	95,024	-
6,093	-	6,093	-
652,900	-	652,900	1,000
839	2,492	3,331	-
11,040	-	11,040	-
(289,560)	289,560	-	-
1,178,082	292,052	1,470,134	1,000
(276,325)	245,290	(31,035)	(14,549)
977,959	1,402,439	2,380,398	80,719
\$ 701,634	1,647,729	2,349,363	66,170
\$ 15,085	-	15,085	-
1,424	249,588	251,012	-
23,884	-	23,884	66,170
661,241	1,398,141	2,059,382	-
\$ 701,634	1,647,729	2,349,363	66,170

City of Traer

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2011

		Special Revenue	
	General	Road Use Tax	Debt Service
Receipts:			
Property tax	\$ 410,017	-	176,676
Tax increment financing collections	-	-	-
Other city tax	8,553	-	-
Licenses and permits	1,183	-	-
Use of money and property	7,598	-	72
Intergovernmental	70,049	147,965	-
Charges for service	328,700	-	-
Miscellaneous	16,175	-	-
Total receipts	842,275	147,965	176,748
Disbursements:			
Operating:			
Public safety	395,845	-	-
Public works	213,348	211,789	-
Health and social services	9,438	-	-
Culture and recreation	227,952	-	-
Community and economic development	73,089	-	-
General government	133,710	-	-
Debt service	-	-	528,436
Capital projects	-	-	-
Total disbursements	1,053,382	211,789	528,436
Excess (deficiency) of receipts over (under) disbursements	(211,107)	(63,824)	(351,688)
Other financing sources (uses):			
Operating transfers in	293,122	77,909	351,793
Operating transfers out	(882,278)	-	-
Bond proceeds, net of fees, etc.	652,900	-	-
Total other financing sources (uses)	63,744	77,909	351,793
Net change in cash balances	(147,363)	14,085	105
Cash balances beginning of year	755,246	1,000	1,319
Cash balances end of year	\$ 607,883	15,085	1,424
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	-	1,424
Unreserved:			
General fund	607,883	-	-
Special revenue funds	-	15,085	-
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 607,883	15,085	1,424

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	106,501	693,194
-	-	-
-	95,024	103,577
-	-	1,183
414	-	8,084
-	8,471	226,485
-	-	328,700
-	-	16,175
414	209,996	1,377,398
-	-	395,845
-	8,471	433,608
-	-	9,438
-	-	227,952
-	43,705	116,794
-	-	133,710
-	-	528,436
171,280	-	171,280
171,280	52,176	2,017,063
(170,866)	157,820	(639,665)
56,879	-	779,703
-	(186,985)	(1,069,263)
-	-	652,900
56,879	(186,985)	363,340
(113,987)	(29,165)	(276,325)
167,345	53,049	977,959
53,358	23,884	701,634
-	-	1,424
-	-	607,883
-	23,884	38,969
53,358	-	53,358
53,358	23,884	701,634

City of Traer  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds			
	Traer Municipal Utilities			
	Electric	Water	Sewer	Telecom
Operating receipts:				
Charges for service	\$ 2,463,530	362,795	126,937	140,817
Operating disbursements:				
Business type activities	1,941,546	298,663	89,789	140,008
Excess (deficiency) of operating receipts over (under) operating disbursements	521,984	64,132	37,148	809
Non-operating receipts (disbursements):				
Interest on investments	1,296	899	32	8
Debt service	(161,752)	(444,786)	-	-
Net non-operating receipts (disbursements)	(160,456)	(443,887)	32	8
Excess (deficiency) of receipts over (under) disbursements	361,528	(379,755)	37,180	817
Other financing sources (uses):				
Operating transfers in	-	395,697	-	-
Operating transfers out	(105,950)	-	(55,000)	-
Total other financings sources (uses)	(105,950)	395,697	(55,000)	-
Net change in cash balances	255,578	15,942	(17,820)	817
Cash balances beginning of year	1,177,093	121,717	15,974	(11,198)
Cash balances end of year	\$ 1,432,671	137,659	(1,846)	(10,381)
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 172,143	56,000	-	-
Unrestricted	1,260,528	81,659	(1,846)	(10,381)
Total cash basis fund balances	\$ 1,432,671	137,659	(1,846)	(10,381)

See notes to financial statements.

TMU	City	
Sub-Total	Sewer	Total
\$ 3,094,079	-	\$ 3,094,079
\$ 2,470,006	-	2,470,006
624,073	-	624,073
2,235	257	2,492
(606,538)	(64,297)	(670,835)
(604,303)	(64,040)	(668,343)
19,770	(64,040)	(44,270)
395,697	55,000	450,697
(160,950)	(187)	(161,137)
234,747	54,813	289,560
254,517	(9,227)	245,290
1,303,586	98,853	1,402,439
\$ 1,558,103	89,626	\$ 1,647,729
228,143	21,445	249,588
1,329,960	68,181	1,398,141
1,558,103	89,626	1,647,729

---

**City of Traer**

---

City of Traer

Notes to Financial Statements

June 30, 2011

**(1) Summary of Significant Accounting Policies**

The City of Traer is a political subdivision of the State of Iowa located in Tama County. It was first incorporated in 1873 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides electric, water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Traer has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Based on the foregoing criteria, Traer Municipal Utilities (TMU) is considered to be part of the primary government and, therefore, the financial information for TMU is included in the City's financial statements. The financial activities of TMU are reported as Enterprise Funds.

These government financial statements present the City of Traer (the primary government) and the Traer Ambulance Service (component unit). The component unit, discussed below, is included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

**Discretely Presented Component Unit**

Traer Ambulance Service is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Traer Ambulance Service is organized as a non-profit corporation. The Ambulance Service collects donations which are to be used to purchase items not included in the City's budget and to help finance new ambulance equipment.

### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture. City officials are members of the following boards and commissions: Tama County Assessor's Conference Board, City Assessor's Conference Board, Tama County Emergency Management Commission, Tama County Landfill Commission and Tama County Joint E911 Service Board.

### B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.



Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for the new development of various capital projects.

The City reports the following major proprietary funds:

The Enterprise, TMU Electric Fund accounts for the operation and maintenance of the City's electrical system.

The Enterprise, TMU Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, TMU Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, TMU Telecom Fund accounts for the operation and maintenance of the City's telecommunications system. This fund was included as part of the TMU Electric Fund in years past, but will be reported as a separate fund for fiscal year 2010 and in years future.

The Enterprise, City Sewer Fund accounts for principal and interest payments of the Sewer Revenue Bonds.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

#### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City and Traer Municipal Utilities had investments in the Iowa Public Agency Investment Trust which are valued at an amortized amount of \$701,211 and \$973,102, respectively, pursuant to Rule 2a-7 under the Investment Company Act of 1940. Also, the City has invested \$15,000 in U.S. Treasury Series HH Savings Bonds.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

#### **(3) Note Receivable**

The City entered into a 28E agreement with Traer Municipal Utilities, the Traer Development Corporation and the Traer Chamber of Commerce, Inc. The purpose of this agreement is to acquire, finance and develop real estate ("Prairie West Fourth and Fifth Additions") and to then market the developed lots to the general public in order to promote the economic development of the City of Traer, Iowa. The City paid for the construction of streets, storm sewers, sanitary sewers and other related improvements in and around "Prairie West Fourth and Fifth Additions" in the amount of approximately \$1,700,000. The City has received a non-interest bearing mortgage note from the Traer Chamber of Commerce, Inc. for \$1,700,000. The balance on this mortgage note receivable as of June 30, 2011 was \$1,511,010. Payments received during the year ended June 30, 2011 were \$0, and expenses related to the lots were \$1,013. This is a non-recourse note, payable upon demand by the City. Proceeds from the sale of residential lots are expected to be used for repayment. In October 2009, the City took possession of all but two of the remaining lots. At this time, the mortgage note is still receivable. However, the value of the lots is currently being assessed to determine a reduction in the mortgage note to reflect what was deeded back to the City.

#### (4) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, revenue bonds and state revolving loans are as follows:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds		State Revolving Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	180,000	67,433	120,000	41,875	41,000	23,239	341,000	132,547
2013	255,000	66,197	125,000	37,075	43,000	21,541	423,000	124,813
2014	265,000	58,447	130,000	31,950	44,000	19,757	439,000	110,154
2015	265,000	49,977	135,000	26,425	46,000	17,930	446,000	94,332
2016	270,000	40,964	140,000	20,485	48,000	16,017	458,000	77,466
2017-2021	790,000	71,002	305,000	21,470	271,000	48,510	1,366,000	140,982
2022-2023	35,000	595	-	-	68,000	2,965	103,000	3,560
Total	\$ 2,060,000	354,615	955,000	179,280	561,000	149,959	3,576,000	683,854

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

##### Revenue Bonds/Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,750,000 of electric revenue bonds issued in May 2003. Proceeds from the notes provided financing for the purpose of paying costs of improvements and extensions to the Municipal Electric Utility and the refunding of the outstanding Series 1991 Electric Revenue Capital Loan Notes. The notes are payable solely from electric customer net receipts and are payable through 2018. The total principal and interest remaining to be paid on the notes is \$1,134,280. For the current year, principal and interest paid and total customer net receipts were \$161,303 and \$521,984, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$757,000 of sewer revenue notes issued in August 2001 and \$101,000 of sewer revenue notes issued in August 2003. Proceeds from the notes provided financing for the construction of improvements to and conversion of the discharge lagoon treatment system. The notes are payable solely from sewer customer net receipts and are payable through 2023. The total principal and interest remaining to be paid on the notes is \$710,959. For the current year, principal and interest paid and total customer net receipts were \$63,851 and \$37,148, respectively.

The resolutions providing for the issuance of the revenue bonds/notes include the following provisions:

- (a) The bonds/notes will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond/note sinking accounts within the Enterprise Funds for the purpose of making the bond/note principal and interest payments when due.

- (c) Additional monthly transfers shall also be made to the electric, and sewer reserve accounts to accumulate amounts equal to the maximum principal and interest due in any succeeding fiscal year. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$48,178, \$46,417 and \$42,327, respectively, equal to the required contributions for each year.

**(6) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 6 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$638 for single coverage and \$1,957 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$60,016 and plan members eligible for benefits contributed \$5,079 to the plan.

**(7) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
<b>City</b>	
Vacation	\$ 6,157
Sick leave	1,165
<b>TMU</b>	
Vacation	21,650
Sick leave	<u>592</u>
Total	<u>\$ 29,564</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 106,501
	Local Option Sales Tax	80,484
	City Sewer	187
	TMU	<u>105,950</u>
		293,122
Special Revenue:		
Road Use Tax	General	77,909
Debt Service	General	351,793
Water	General	<u>395,697</u>
		747,490
Capital Projects	General	56,879
City Sewer	TMU	<u>55,000</u>
Total		<u>\$1,230,400</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$20,086 during the year ended June 30, 2011.

**(10) Tama County Solid Waste Disposal Commission**

The City, in conjunction with other municipalities in Tama County, has created the Tama County Solid Waste Disposal Commission. The Commission was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Commission will be prorated among the municipalities. The Commission is governed by a board composed of an elected representative to the governing body of each participating governmental jurisdiction. The Commission has accumulated \$1,228,000 for closure/post closure expenditures.

However, the Commission may not be accumulating sufficient financial resources and the participating governments may be obligated for a proportionate share of the debt,

therefore, the City of Traer may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2011, the City paid the Tama County Solid Waste Disposal Commission \$17,534. The Commission is then responsible for paying all landfill fees for the City's share of the cost. Completed financial statements for the Commission can be obtained from the Tama County Solid Waste Disposal Commission.

#### **(11) Component Unit Detail**

The Traer Ambulance Service is a component unit of the City of Traer. The Statement of Cash Receipts, Disbursements and Changes in Cash Balance for the year ended June 30, 2011 is as follows:

	Traer Ambulance Service
Operating receipts:	
Intergovernmental	\$ 23,726
Miscellaneous	24,511
General receipts:	
Unrestricted interest on investments	1,000
Total receipts	<u>49,237</u>
Operating disbursements:	
Public safety	<u>63,786</u>
Net change in cash balance	(14,549)
Cash balance beginning of year	<u>80,719</u>
Cash balance end of year	<u>\$ 66,170</u>

#### **City paid to Ambulance Service**

Meetings and calls	<u>\$ 22,626</u>
--------------------	------------------

#### **(12) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **(13) Interdepartmental Loans**

##### Water Control Project

The Enterprise Fund, TMU Electric has loaned the Enterprise Fund, TMU Water \$60,000 for the water control project. This loan is a non-interest bearing note, payable from the revenue of the water fund. No payment schedule has been established.

#### **(14) Deficit Balances**

The Enterprise Funds, Sewer and Telecom, had deficit balances of, \$1,846 and \$10,381, respectively, at June 30, 2011. The City will continue to monitor and reduce disbursements as possible to return the funds to a positive account balance.

**(15) Lease Purchase Agreement**

In April 2010, the City entered into a verbal lease purchase agreement with Norseman Wind Energy, LLC for the use of energy produced by the wind turbine. The written lease is to be signed when the project is completed and final construction numbers are figured. The lease was for \$1,080,000 that will be paid over a six year period. When the City has purchased 30,584,982 kwh and all lease payments have been made, Norseman Wind Energy, LLC will convey all rights, titles and interests of the wind turbine to the City. Estimated annual payables from the City are as follows:

Year Ending June 30,	Amount	Total
2012	\$90,000	90,000
2013	180,000	180,000
2014	180,000	180,000
2015	180,000	180,000
2016	180,000	180,000
2017	180,000	180,000
2018	90,000	90,000
Total	<u>\$1,080,000</u>	<u>1,080,000</u>

**(16) Subsequent Events**

On July 6, 2011 the City issued a \$980,000 Electric Revenue Refunding Capital Loan Note. The City also refinanced the 2001 Sewer Revenue Bond at 3% interest effective 12/1/11 on July 11, 2011.

Council Member Richard Thompson was replaced by Dann Larmore on 8/11/11.

City of Traer

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 693,194	-
Tax increment financing collections	-	-
Other city tax	103,577	-
Licenses and permits	1,183	-
Use of money and property	8,084	2,492
Intergovernmental	226,485	-
Charges for service	328,700	3,094,079
Miscellaneous	16,175	-
Total receipts	<u>1,377,398</u>	<u>3,096,571</u>
Disbursements:		
Public safety	395,845	-
Public works	433,608	-
Health and social services	9,438	-
Culture and recreation	227,952	-
Community and economic development	116,794	-
General government	133,710	-
Debt service	528,436	-
Capital projects	171,280	-
Business type activities	-	3,140,841
Total disbursements	<u>2,017,063</u>	<u>3,140,841</u>
Excess (deficiency) of receipts over (under) disbursements	(639,665)	(44,270)
Other financing sources, net	<u>363,340</u>	<u>289,560</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(276,325)	245,290
Balances beginning of year	<u>977,959</u>	<u>1,402,439</u>
Balances end of year	<u>\$ 701,634</u>	<u>1,647,729</u>

See accompanying independent auditor's report.



Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
693,194	689,437	689,437	\$ 3,757
-	-	-	-
103,577	93,042	93,042	10,535
1,183	5,050	5,050	(3,867)
10,576	6,050	6,050	4,526
226,485	346,500	346,500	(120,015)
3,422,779	3,376,133	3,376,133	46,646
16,175	35,450	35,450	(19,275)
4,473,969	4,551,662	4,551,662	(77,693)
395,845	410,066	420,066	24,221
433,608	431,014	446,014	12,406
9,438	9,497	14,497	5,059
227,952	183,427	233,427	5,475
116,794	120,613	125,613	8,819
133,710	131,705	146,705	12,995
528,436	338,245	598,245	69,809
171,280	177,500	182,500	11,220
3,140,841	3,011,862	3,406,862	266,021
5,157,904	4,813,929	5,573,929	416,025
(683,935)	(262,267)	(1,022,267)	338,332
652,900	43,218	703,218	(50,318)
(31,035)	(219,049)	(319,049)	288,014
2,380,398	2,196,209	2,380,398	-
2,349,363	1,977,160	2,061,349	\$ 288,014

---

### **Required Supplementary Information**

---

City of Traer

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$365,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

---

### **Other Supplementary Information**

---

## City of Traer

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			Total
	Employee Benefits	Local Option Sales Tax	I-Jobs	
Receipts:				
Property tax	106,501	-	-	106,501
Other city tax	-	95,024	-	95,024
Intergovernmental	-	-	8,471	8,471
Total Receipts	106,501	95,024	8,471	209,996
Disbursements:				
Operating:				
Public Works	-	-	8,471	8,471
Community and economic development	-	43,705	-	43,705
Total Disbursements	-	43,705	8,471	52,176
Excess (deficiency) of receipts over (under) disbursements	106,501	51,319	-	157,820
Other financing sources:				
Operating transfers out	(106,501)	(80,484)	-	(186,985)
Net change in cash balances	-	(29,165)	-	(29,165)
Cash balances beginning of year	-	53,049	-	53,049
Cash balances end of year	-	23,884	-	23,884
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special revenue funds	-	23,884	-	23,884
Total cash basis fund balances	-	23,884	-	23,884

See accompanying independent auditor's report.

---

City of Traer  
Schedule of Indebtedness  
Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
Series 2003	Aug 1, 2003	1.75-3.90 %	500,000
Series 2005	Jun 1, 2005	2.95-4.20	1,250,000
Series 2007	Aug 20, 2007	3.9-4.3	750,000
Capital Loan Notes 2011	May 3, 2011	1.00-3.40	660,000
Total			
Revenue bonds:			
FMHA Water Revenue	Jan 1, 1982	5.00 %	\$ 871,200
2003 Electric Revenue	May 1, 2003	2.5-4.7	1,750,000
Total			
State revolving loans:			
2001 Sewer Revenue	Aug 3, 2001	4.30 %	\$ 757,000
2003 Sewer Revenue	Aug 5, 2003	4.30	101,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
300,000	-	300,000	-	10,625	-
910,000	-	95,000	815,000	35,607	-
645,000	-	60,000	585,000	27,129	-
-	660,000	-	660,000	-	-
<b>\$ 1,855,000</b>	<b>660,000</b>	<b>455,000</b>	<b>2,060,000</b>	<b>73,361</b>	<b>-</b>
422,329	-	422,329	-	22,457	-
1,070,000	-	115,000	955,000	46,753	-
<b>\$ 1,492,329</b>	<b>-</b>	<b>537,329</b>	<b>955,000</b>	<b>69,210</b>	<b>-</b>
527,000	-	34,000	493,000	22,925	-
73,000	-	5,000	68,000	2,372	-
<b>\$ 600,000</b>	<b>-</b>	<b>39,000</b>	<b>561,000</b>	<b>25,297</b>	<b>-</b>

---

### **Other Supplementary Information**

---



City of Traer  
Bond and Note Maturities

June 30, 2011

General Obligation Bonds							
Year Ending June 30,	Series 2005		Series 2007		Series 2011		Total
	Issued Jun 1, 2005		Issued Aug 20, 2007		Issued May 3, 2011		
	Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	
2012	3.55	115,000	4.00	65,000	1.00	-	180,000
2013	3.65	100,000	4.05	70,000	1.00	85,000	255,000
2014	3.80	105,000	4.10	70,000	1.00	90,000	265,000
2015	3.90	100,000	4.13	75,000	1.75	90,000	265,000
2016	4.00	100,000	4.15	75,000	1.75	95,000	270,000
2017	4.10	100,000	4.20	80,000	1.75	90,000	270,000
2018	4.15	100,000	4.25	85,000	2.70	40,000	225,000
2019	4.20	95,000	4.30	65,000	2.70	45,000	205,000
2020	-	-	-	-	2.70	45,000	45,000
2021	-	-	-	-	3.40	45,000	45,000
2022	-	-	-	-	3.40	35,000	35,000
Total		<u>\$ 815,000</u>		<u>\$ 585,000</u>		<u>\$ 660,000</u>	<u>2,060,000</u>

Revenue Bonds			
2003 Electric			
Year Ending June 30,	Issued May 1, 2003		
	Interest		
	Rates	Amount	Total
2012	4.00	120,000	120,000
2013	4.10	125,000	125,000
2014	4.25	130,000	130,000
2015	4.40	135,000	135,000
2016	4.50	140,000	140,000
2017	4.60	150,000	150,000
2018	4.70	155,000	155,000
Total		<u>\$ 955,000</u>	<u>955,000</u>

State Revolving Loans					
Year Ending June 30,	2001 Sewer Revenue		2003 Sewer Revenue		Total
	Issued Aug 3, 2001		Issued Aug 5, 2003		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2012	4.30	36,000	3.00	5,000	41,000
2013	4.30	38,000	3.00	5,000	43,000
2014	4.30	39,000	3.00	5,000	44,000
2015	4.30	41,000	3.00	5,000	46,000
2016	4.30	43,000	3.00	5,000	48,000
2017	4.30	44,000	3.00	6,000	50,000
2018	4.30	46,000	3.00	6,000	52,000
2019	4.30	48,000	3.00	6,000	54,000
2020	4.30	50,000	3.00	6,000	56,000
2021	4.30	53,000	3.00	6,000	59,000
2022	4.30	55,000	3.00	6,000	61,000
2023		-	3.00	7,000	7,000
Total		<u>\$ 493,000</u>		<u>\$ 68,000</u>	<u>561,000</u>

See accompanying independent auditor's report.

City of Traer

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Eight Years

	2011	2010	2009	2008
Receipts:				
Property tax	\$ 693,194	\$ 678,331	654,765	586,025
Tax increment financing collections	-	-	-	-
Other city tax	103,577	101,763	100,986	99,065
Licenses and permits	1,183	465	3,250	560
Use of money and property	8,084	7,969	22,421	52,548
Intergovernmental	226,485	312,496	196,741	634,435
Charges for service	328,700	320,441	308,275	286,166
Miscellaneous	16,175	54,032	36,365	36,541
Total	<u>\$ 1,377,398</u>	<u>1,475,497</u>	<u>1,322,803</u>	<u>1,695,340</u>
Disbursements:				
Operating:				
Public safety	\$ 395,845	\$ 417,896	273,554	241,390
Public works	433,608	440,949	359,911	348,085
Health and social services	9,438	7,772	7,302	9,469
Culture and recreation	227,952	176,831	168,456	181,152
Community and economic development	116,794	167,571	107,527	226,156
General government	133,710	131,271	132,973	131,735
Debt service	528,436	371,082	360,438	290,524
Capital projects	171,280	290,022	221,407	518,952
Total	<u>\$ 2,017,063</u>	<u>2,003,394</u>	<u>1,631,568</u>	<u>1,947,463</u>

See accompanying independent auditor's report.

2007	2006	2005	2004
529,737	488,081	466,425	450,358
38,387	30,519	27,954	7,978
98,890	85,221	82,107	67,751
1,157	1,688	2,064	2,154
48,317	21,673	26,655	18,604
658,826	293,987	521,023	289,983
275,814	267,246	122,712	214,406
117,090	353,987	191,957	447,982
<u>1,768,218</u>	<u>1,542,402</u>	<u>1,440,897</u>	<u>1,499,216</u>
238,436	277,207	243,189	159,791
332,536	343,485	355,075	310,259
9,163	7,882	7,518	4,693
153,465	156,602	167,091	140,266
131,431	104,266	161,551	98,216
134,765	139,770	142,528	151,884
321,710	245,761	209,824	205,107
550,686	1,711,090	370,740	1,465,379
<u>1,872,192</u>	<u>2,986,063</u>	<u>1,657,516</u>	<u>2,535,595</u>

---

**City of Traer**

---

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor, Members of the City Council and  
Board of Trustees, Traer Municipal Utilities:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Traer, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 30, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Traer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Traer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Traer's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Traer's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-11 and II-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies we considered to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Traer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Traer's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Traer's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Traer and other parties to whom the City of Traer may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Traer, Traer Municipal Utilities and the Traer Ambulance Service during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lou Ann Murphy & Company, P.L.L.C.  
Certified Public Accountants  
Osage, Iowa

January 30, 2012

City of Traer  
Schedule of Findings  
June 30, 2011

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

---

**City of Traer**

---



City of Traer  
Schedule of Findings  
June 30, 2011

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-11 Dual Signature – The City has a policy that requires dual signature on all checks. We noted that not all checks have dual signatures.

Recommendation – The City should use dual signature on all checks.

Response – Dual signatures will be properly used.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

---

**City of Traer**

---

City of Traer  
Schedule of Findings  
June 30, 2011

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- III-B-11 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979.
- III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jake Schmitt, Council Member, Part Owner of Wieck Brothers Oil Company	Gasoline and diesel	\$ 20,086

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Council Member appears to represent a conflict of interest since the total transactions with him were more than \$1,500 during the fiscal year and bids were not taken.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – Purchases from Wieck Brothers Oil are day-to-day fuel purchases for the City, TMU, Fire Department and Ambulance vehicles. There are three gas stations in town and a rotating schedule is used to purchase fuel from all three stations. We do not feel this is a conflict of interest.

Conclusion – Response accepted. However, the City should still consult legal counsel to determine the disposition of this matter.

- III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Traer  
Schedule of Findings

June 30, 2011

- III-F-11 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should publish minutes as required.

Response – We will continue to make every effort to publish minutes as required. However, with a local paper that is published only once per week, with a cutoff 3 days before publication, it can be difficult to do so within 15 days.

Conclusion – Response accepted.

- III-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- III-H-11 Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.

- III-I-11 Telecommunications Services – No instances of noncompliance with Chapter 388.10 of the Code of Iowa were noted.

- III-J-11 Discriminatory Rates – We noted that the City charges two rates for garbage based on age. Chapter 388.6 of the Code of Iowa states, in part, that there cannot be special rates based on discriminatory factors. (senior citizens)

Recommendation – The City should consult legal counsel about this issue.

Response – The City will consult legal counsel.

Conclusion – Response accepted.

- III-K-11 Financial Condition – At June 30, 2011, The TMU Telecom Fund and the Sewer Fund had a deficit balance of \$10,381 and \$1,846, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.